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STATE FOR NEA/ELA, NEA/RA, EB/IFD
USAID FOR ANE/MEA MCCLOUD AND DUNN
USTR FOR SAUMS
TREASURY FOR MATHIASSEN AND HIRSON
COMMERCE FOR 4520/ITA/ANESA/OBERG

E.O. 12958: DECL: 07/25/2017

TAGS: [ECON](#) [EAID](#) [EG](#)

SUBJECT: AMBASSADOR'S MEETING WITH MINISTER OF
INTERNATIONAL COOPERATION

CLASSIFIED BY ACTING DCM WILLIAM R. STEWART FOR REASONS 1.4
(b) AND (d).

¶1. (C) The Ambassador, A/USAID Director John Groarke, USAID Strategy, Coordination and Support Director Steffi Meyer and econoff met with Minister of International Cooperation Fayza Aboul Naga on July 19 to discuss ESF. Aboul Naga noted that if ESF levels decline to \$150-200 million annually beginning in FY09, Egypt will be paying more to the U.S. in debt service than it receives in economic assistance. She reported that annual non-ESF debt payments are \$350 million, of which approximately \$150 million is P.L. 480 repayment. The GOE would like to establish an "endowment" into which it would make these non-ESF debt repayments. New ESF funds would also be put into the endowment beginning in FY09. The endowment would then be used to repay ESF debt from soft loans issued in the 1970s and early 80s. The soft loans will be repaid by 2021, and under Aboul Naga's proposal, all ESF would be eliminated by 2025. Egypt is taking the initiative in phasing out ESF, and Aboul Naga believes we should welcome this initiative. ESF is a drag on the U.S. budget, and as Egypt develops, it no longer needs as much assistance.

¶2. (C) Aboul Naga plans to travel to Washington at the end of September to explain this proposal to Congress. She believes Congress does not understand what is happening in Egypt, and this is reflected the Senate's proposal to withhold some part of Egypt's FMF pending GOE actions in specific areas (Note: Aboul Naga was apparently referring to the amendment to the Senate FY08 Foreign Ops bill proposed by Senator Kyl (R-AZ), which was subsequently withdrawn from the draft bill). The Ambassador encouraged Aboul Naga to make the trip to Washington, but warned that her proposal would be a hard sell with Congress, which does not like endowments. Moreover, our timelines are likely much shorter and many members of Congress are concerned about lack of progress on democratic reform in Egypt. The Administration hopes to go ahead soon, however, with the Congressional Notification (CN) of a \$50 million initial disbursement for the new cash transfer program.

¶3. (C) The Ambassador also noted that we would like to program remaining FY06 ESF before Congress recesses August 6. If the money is not programmed, it becomes part of the large balance of unobligated cash transfer funds that Congress continually eyes for rescissions due to slow progress on cash transfer benchmarks. Aboul Naga said she did not want a repeat of the \$200 million rescission in cash transfer funds, which happened despite Egypt's progress on financial sector reform. Ahmed Magrabi, Minister of Housing, proposed to MIC

the use of \$100 million in FY06 ESF for a wastewater/sanitation project in Upper Egypt. Magrabi also proposed using the funds for an ongoing water management program, and construction of two hydroelectric plants in Sohag. These projects will benefit thousands of Egyptian villages and millions of Egyptians. Aboul Naga said she would send a formal request to USAID with the wastewater/sanitation proposal, noting that this is a GOE priority (Note: A copy of this letter was faxed to NEA/ELA.). She also asked that the \$50 million initial disbursement come from FY07 money, and that any remaining FY06 money be used for other ongoing projects needing additional funds.

14. (C) A/USAID Mission Director John Groarke said that a CN would be needed to add money to ongoing projects. This is possible, but USAID will have to explain in the CN that the Administration is not abandoning the cash transfer program, but does not want too much money to build up in that program.
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